



Introduction to Baseline FY 2018-2020 Two-Year Budget and FY 2018-2023 Five-Year Plan

Finance Department

Community Budget Workshop

February, 2018

BACKGROUND

- December 2015: City Council approved the move to a two-year budget in the context of a five-year plan
- September 2017: Staff began planning for the FY 2018-20 Two-Year Budget and FY 2018-23 Five-Year Plan
- June 2018: Adoption of the City-wide FY 2018-20 Two-Year Budget and General Fund FY 2018-23 Five-Year Plan are anticipated

PLANNING PROCESS

FY 2018-2023 FIVE-YEAR FINANCIAL PLAN

with key challenges and solutions identified and linked to Riverside 2.1 Strategic Plan and Five-Year Capital Improvement Plan

FY 2018-2020 Two-Year Budget

YEAR 1
FY 18-19
Two-Year
Budget

YEAR 2
FY 19-20
Two-Year
Budget

YEAR 3
FY 20-21
Two-Year
Budget

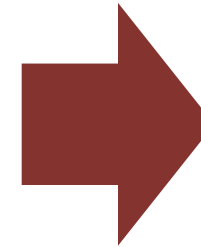
YEAR 4
FY 21-22
Two-Year
Budget

YEAR 5
FY 22-23
Two-Year
Budget

Focus on detailed budget development for two-years with five-year financial forecasts. Incorporate Riverside 2.1.

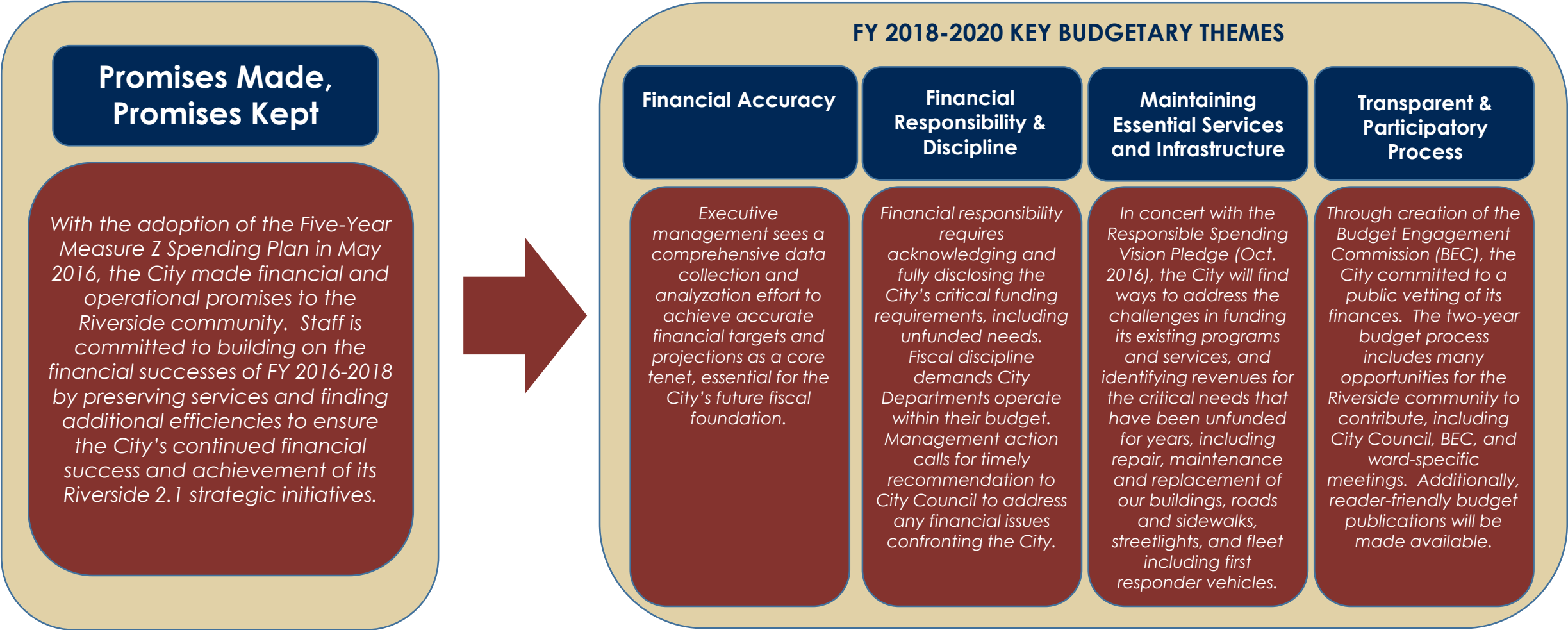
Mid-Cycle review to incorporate updates to Riverside 2.1 and refinements to Five-Year Financial Plan.

Updated Annually



- Financial decisions are made in the context of the Five-Year Financial Plan.
- Comprehensive vetting by Budget Engagement Commission, applicable citywide Board and Commissions, City Council and the Riverside Community.
- Quarterly revenue, expenditure, debt and investment reviews are conducted.

FY 18-20 BUDGET THEMES



STRONG FOUNDATION

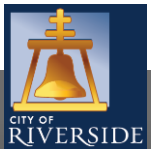
STRONG FINANCIAL FOUNDATION

- Measure Z
- FY 2016-18 budget reductions
- Budget Engagement Commission
- Two-year budget and five-year plan

- General obligation bond rating increased from A+ to AA– by S&P
- FYE 2017-18 projected General Fund reserve of more than 20%

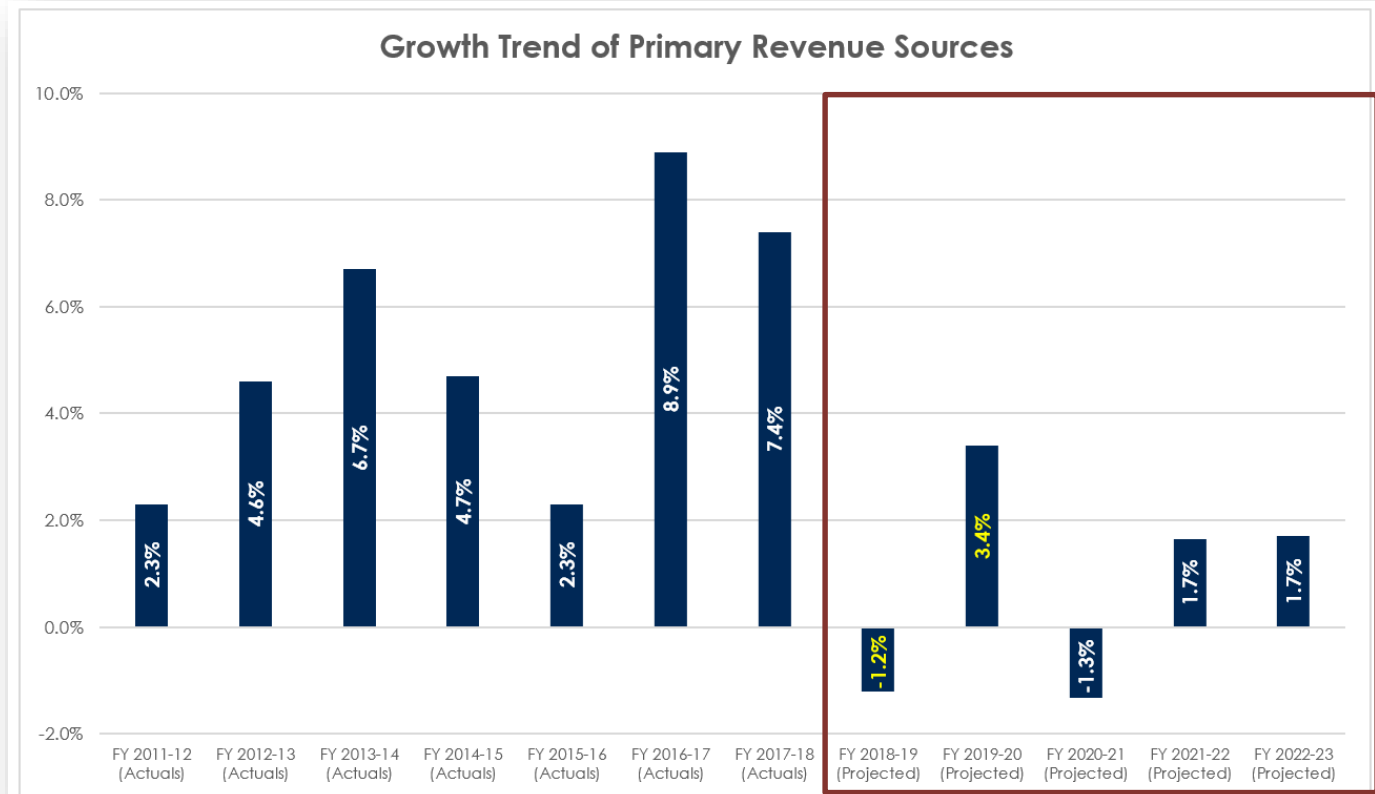
BOTTOM LINE

- Flattening of revenues
 - Annualized growth rate in core revenue sources continuing to slow ; 1.5% - 2% as compared to 7% in fiscal years 2013-15
- Measure Z Contribution
 - In FY 2017-18, \$20.5M to General Fund. Staff anticipates contributions of \$13.2M in FY 2018-19 and \$18.3M in FY 2019-20
- Personnel Costs
 - More than 80% of total expenditures, consistent with other full-service cities
 - Increasing CalPERS costs – Statewide issue
- Managed Savings
 - Instead of vague and temporary budget measures, permanent balancing measures will now be required
- Contracts and Subsidies
 - In-depth review to understand and minimize impact on direct services
- Projected Shortfalls
 - Preliminary baseline budget projects shortfalls of \$3 million in FY 2018-19; \$6 million in FY 2019-20



BASELINE ASSUMPTIONS - REVENUES

- Sales Tax
 - Slowing; 2% FY 2018-19, 1.5% FY 2019-20
- Property Tax
 - Growing; 3.7% per year projected for FY 2018-20
- Utility User Tax
 - Flat since FY 2012-13
- General Fund Transfer
 - Measure Z
 - Electric & Water
- Other Revenues
 - Mostly flat



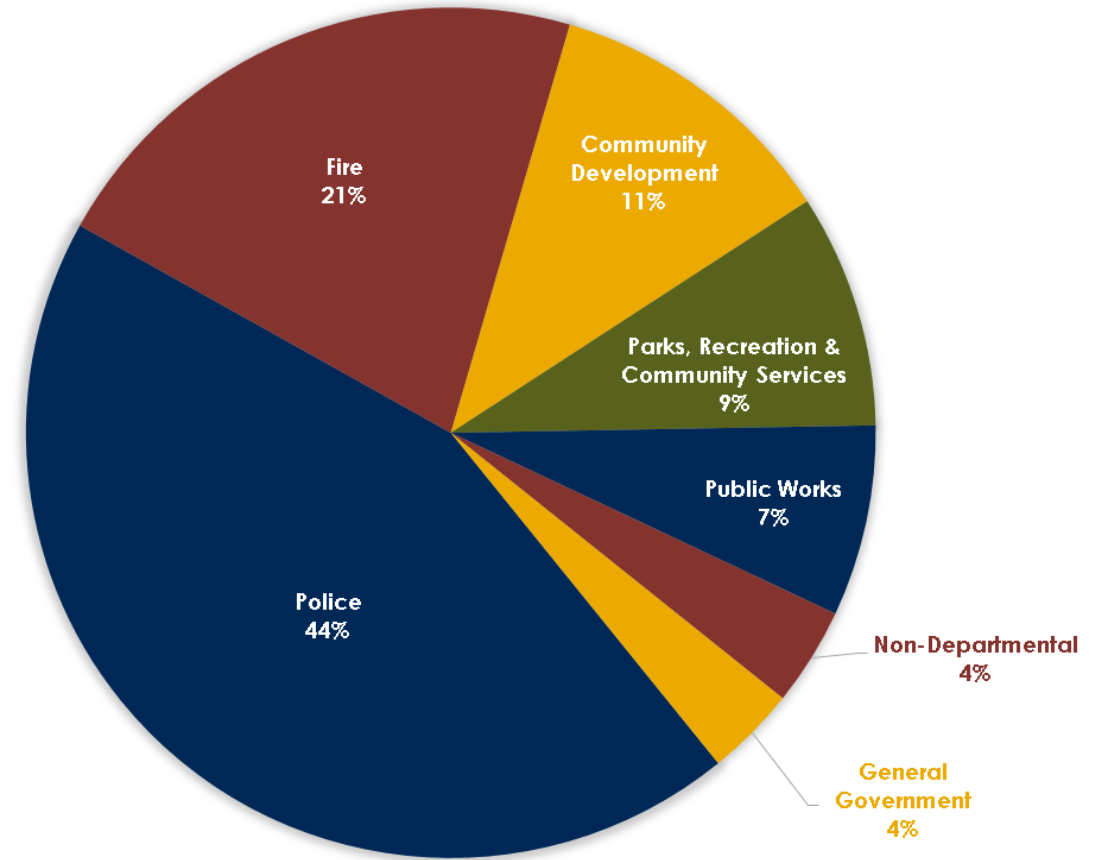
The above chart represents the year-over-year increase or decrease in General Fund revenues. The drop in FY 2018-19 revenues is primarily due to a 35% decrease in the Measure Z fund transfer, from \$20.5 million in 2017-18 to \$13.2 million in FY 2018-19.

GENERAL FUND TRANSFER

What It Pays For

- Charter provision whereby up to 11.5% of the prior fiscal year's Electric and Water operating revenues are transferred to the General Fund.
- This money goes into the General Fund, and pays for essential City services such as public safety, public works, libraries and recreation programs, and business assistance.
- Approximately \$47 million through the General Fund Transfer in FY 2018-19.

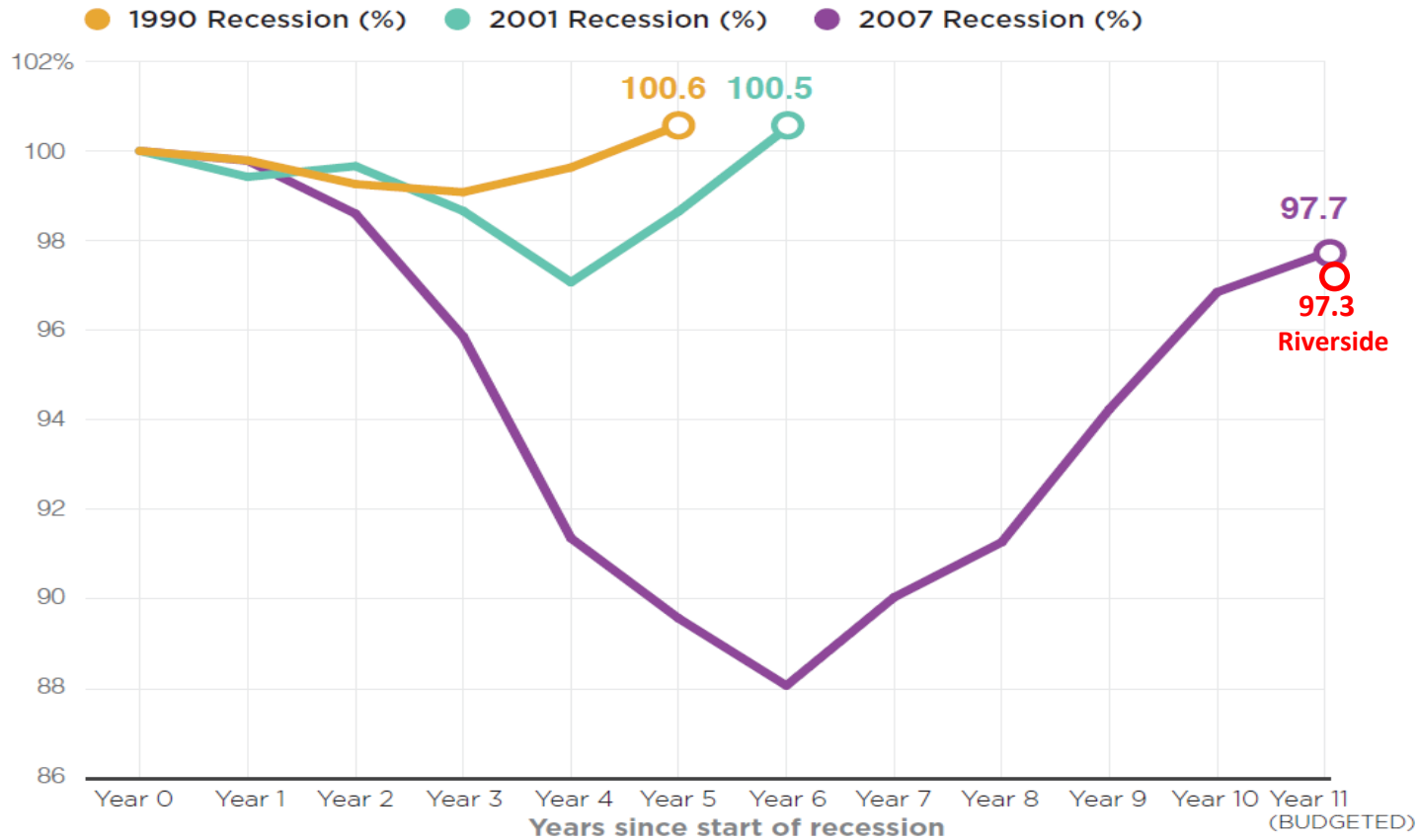
HOW IS THE GFT SPENT?



HOW DOES RIVERSIDE COMPARE?

Figure 6

General Fund Revenue Recovery During Recent Recessions



- Riverside revenue recovery is at just 97.3% of pre-recession levels, in line with other cities
- Continued economic uncertainty
- Slowing revenues in post-recession period

*"The drastic economic and technological changes occurring in the most recent recovery period, as well over the past 30 years, point to the imperative to re-examine the field's conventional thinking about the **ability of city finances to buffer against economic downturns and to capture revenue growth** during periods of economic expansion."*

- National League of Cities 2017 "City Fiscal Conditions"

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BASELINE ASSUMPTIONS - EXPENDITURES

- Personnel
 - Partnership Compensation Model
 - CalPERS
- Non-Personnel
 - Increases based on historical CPI
- Charges and Transfers
 - New Cost Allocation Plan
- Subsidies

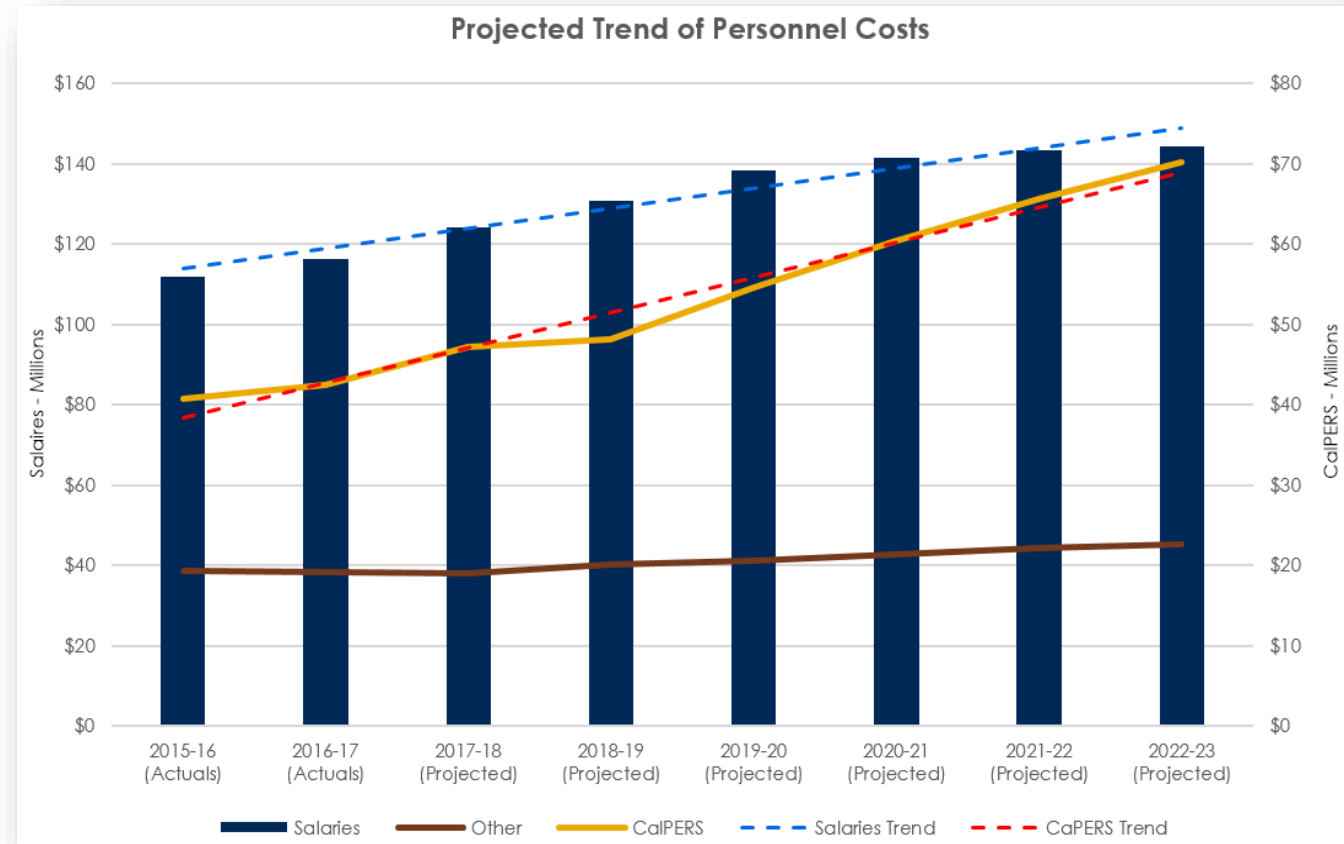
General Fund Expenditures by Major Category

Expenditure Category	FY 2018-19	% of Total	FY 2019-20	% of Total
Personnel	\$219.10	80.5%	\$233.88	82.0%
Non-Personnel	\$50.56	18.6%	\$50.76	17.8%
Special Projects	\$8.02	2.9%	\$8.14	2.9%
Equipment	\$.40	0.1%	\$.40	0.1%
Minor Capital	\$1.89	0.7%	\$2.10	0.7%
Debt Service	\$24.42	9.0%	\$23.17	8.1%
Charges and Transfers	-\$32.29	-11.9%	-\$33.18	-11.6%
Totals	\$272.09	100%	\$285.27	100%

(Amounts expressed in millions)

PERSONNEL COSTS - OVERVIEW

- Represent more than 80% of the total General Fund Budget
- Partnership Compensation Model ties pay raises for most represented employees to core revenue sources
- CalPERS is the largest cost driver, outpacing salaries
 - General Fund CalPERS costs are expected to increase more than \$22 million or 46%.



The ratio of CalPERS costs to Salaries will continue to narrow as salary increases tied to revenues level off. Some continued salary increases are projected in the form of merit pay, within the position salary range.

PERSONNEL COSTS - CALPERS RATES

Normal Cost						
Group	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Misc	12.136%	12.314%	12.900%	14.100%	14.100%	14.100%
Safety	19.867%	20.436%	21.400%	23.200%	23.200%	23.200%
UAL (in millions)						
Group	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Misc	\$15.68	\$19.42	\$23.78	\$26.92	\$31.12	\$34.78
Safety	\$12.35	\$15.61	\$19.34	\$22.12	\$25.68	\$28.84

Pay rate increases are based on estimated performance of the Balanced Revenue Index (BRI).

The PERS Giveback represents the shift of City costs to the employee.

There are no pay rate increases or PERS Givebacks assumed for FY 2021-22 or FY 2022-23.

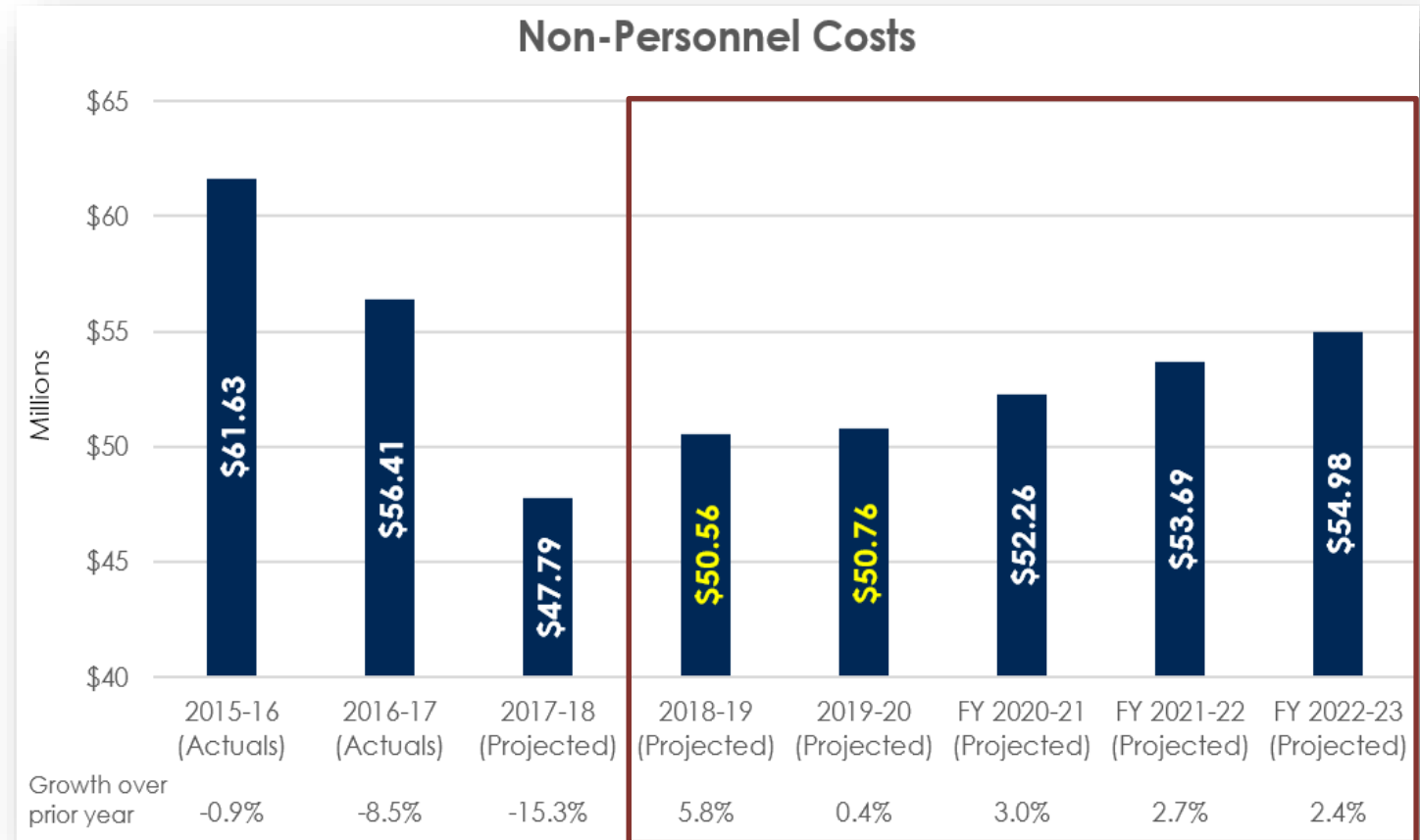
Budget Assumptions

BARGAINING UNIT	FY 2017-18		FY 2018-19		FY 2019-20		FY 2020-21	
	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK
Police	6.00%	1.50%	6.00%	1.50%	0.91%	0.00%	0.99%	0.00%
Police Supervisory	6.00%	1.50%	6.00%	1.50%	0.91%	0.00%	0.99%	0.00%
Police Management	6.00%	1.50%	6.00%	1.50%	0.91%	0.00%	0.99%	0.00%
Fire	4.00%	0.00%	6.50%	2.50%	4.50%	2.50%	2.00%	2.00%
Fire Management	4.00%	0.00%	6.25%	2.50%	4.25%	2.50%	2.00%	2.00%
SEIU-General	4.00%	0.00%	6.00%	1.00%	3.00%	1.00%	0.00%	0.00%
SEIU-Refuse	4.00%	0.00%	6.00%	1.00%	3.00%	1.00%	0.00%	0.00%
IBEW	4.00%	2.00%	4.00%	2.00%	4.00%	2.00%	3.50%	2.00%
IBEW Supervisory	4.00%	2.00%	4.00%	2.00%	4.00%	2.00%	3.50%	2.00%
Unrepresented	4.00%	2.00%	5.00%	2.00%	3.00%	2.00%	2.00%	2.00%



NON-PERSONNEL COSTS - OVERVIEW

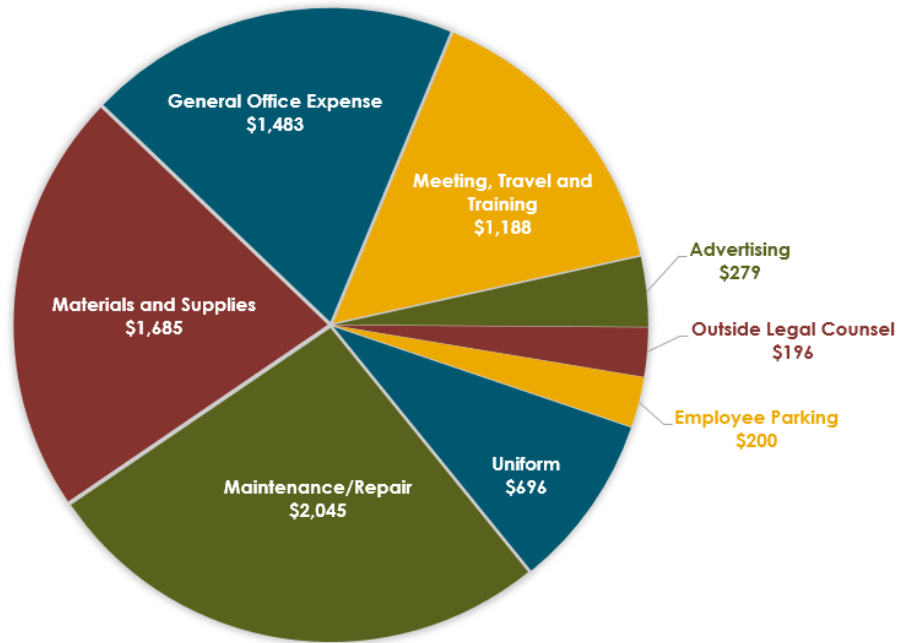
- Represent approximately 18% of the total General Fund Budget
- Lower than prior years
 - Cost savings efforts
 - No more “managed savings”
 - Increase from FY 2017-18 projection largely due to contributions to Self-Insurance Fund
- Assumptions:
 - Baseline budgets include increases based on CPI (2%) and historical trends



Non-Personnel costs have decreased significantly over the last few years due to cost-savings efforts and sound fiscal management. Heavy scrutiny of non-personnel costs will continue in the current budget cycle as we look for opportunities to reduce spending.

NON-PERSONNEL COSTS BY TYPE

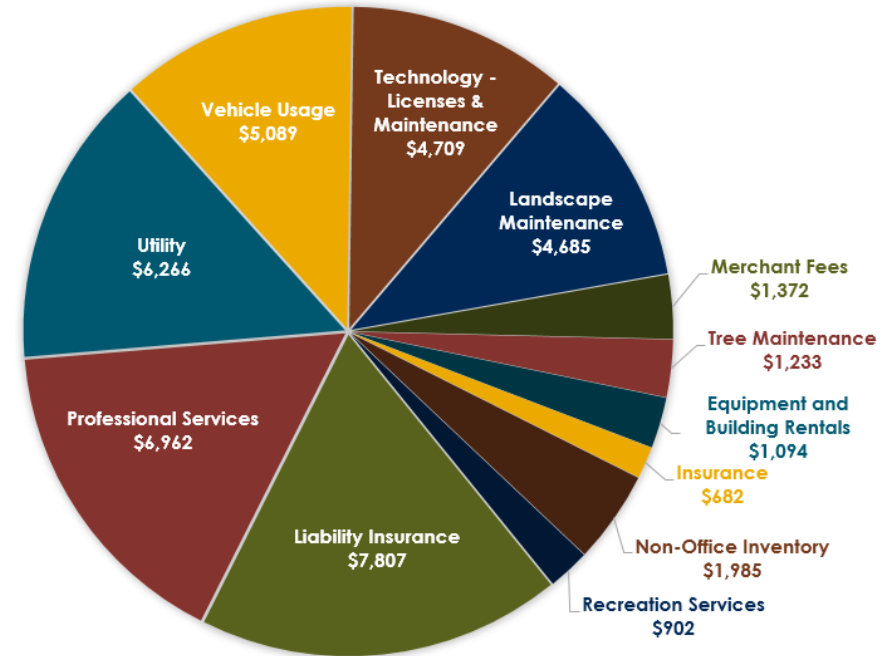
FY 18-19 NON-PERSONNEL - DISCRETIONARY



(Amounts expressed in thousands)

- Not essential to core business functions
- May indirectly result in service impacts, particularly quality

FY 18-19 NON-PERSONNEL - NON-DISCRETIONARY



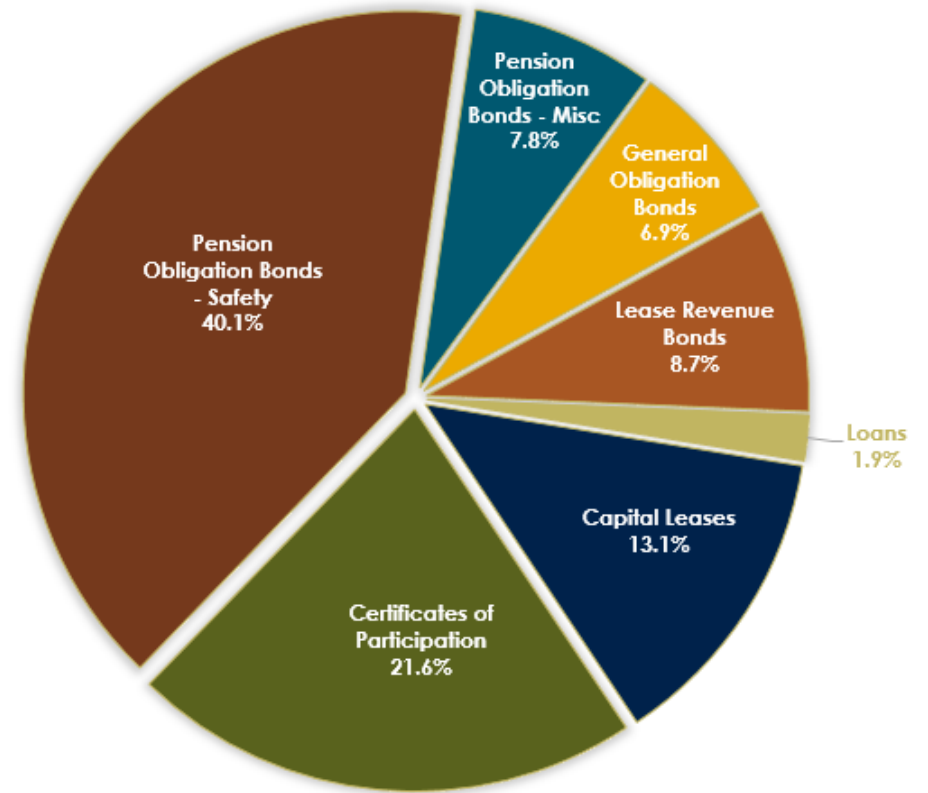
(Amounts expressed in thousands)

- Mandated by law, local policies, contractual agreements, or are critical to the operations of the City
- Will most certainly result in service impacts

OTHER EXPENDITURES

- *Special Projects*
 - 3% / approximately \$8 million per year
- *Minor Capital*
 - <1% / approximately \$2 million per year
- *Equipment*
 - <1% / \$400,000 per year
- *Debt*
 - \$24.4 million in FY 2018-19
 - \$23.2 million in FY 2019-20

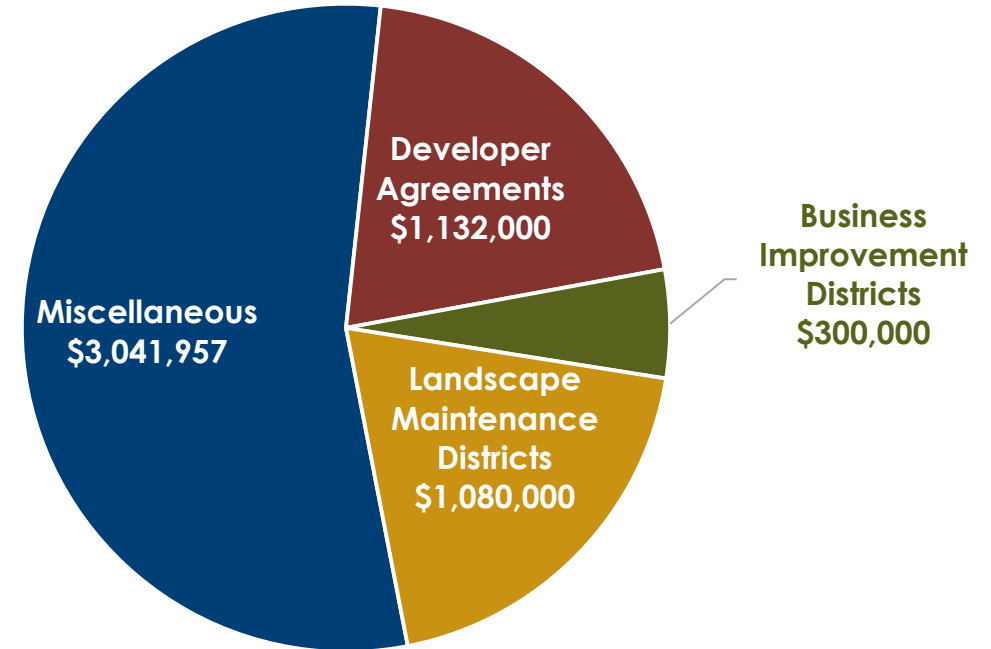
FY 2018-19 DEBT COSTS



CONTRACTS AND SUBSIDIES

- Contractual Agreements
 - Crossing guards for school districts
 - RCC Pool Maintenance
- Economic Development
 - Developer Agreements
- Charter Requirement
 - Commission support
- Special Assessment Districts
 - Business Improvement, Landscape
- Community Support
 - Art Organizations
 - Janet Goekse Center
- Special Events
 - Festival of Lights

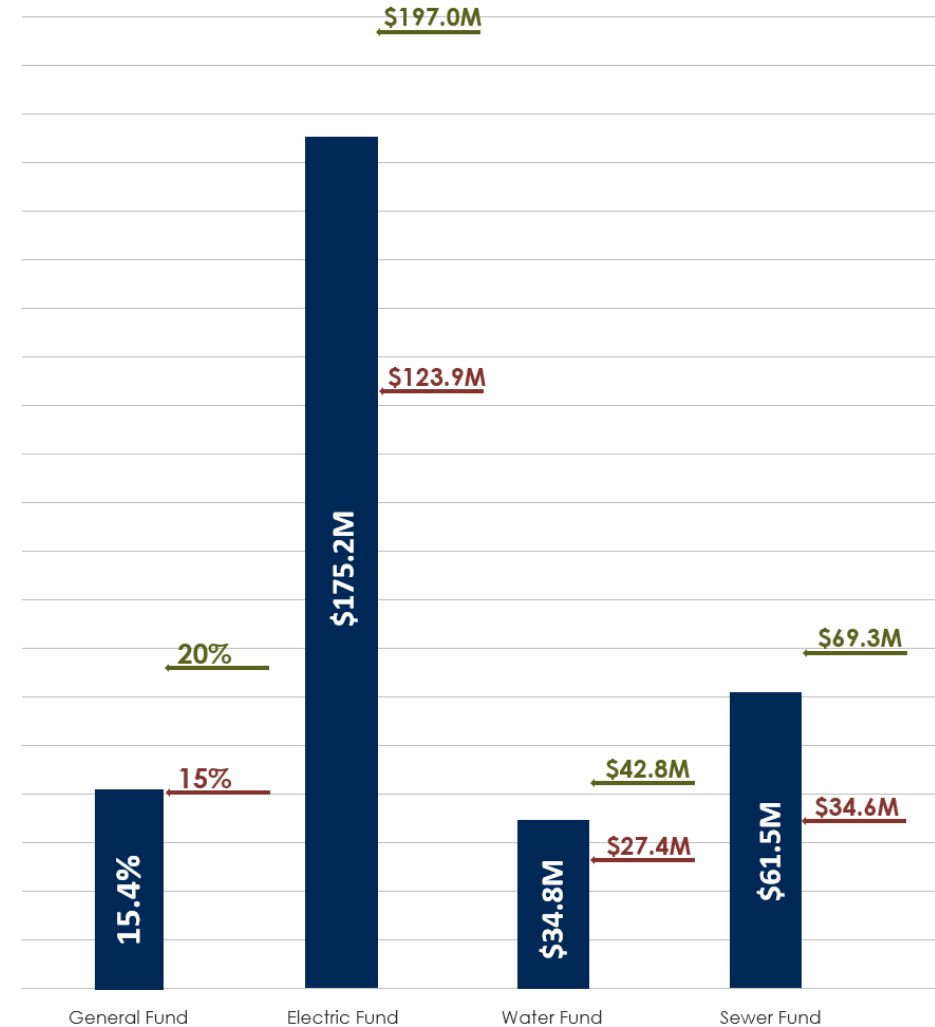
At approximately 2% of General Fund spending, subsidies total more than \$5 million annually



WHAT ARE THE RESERVES FOR?

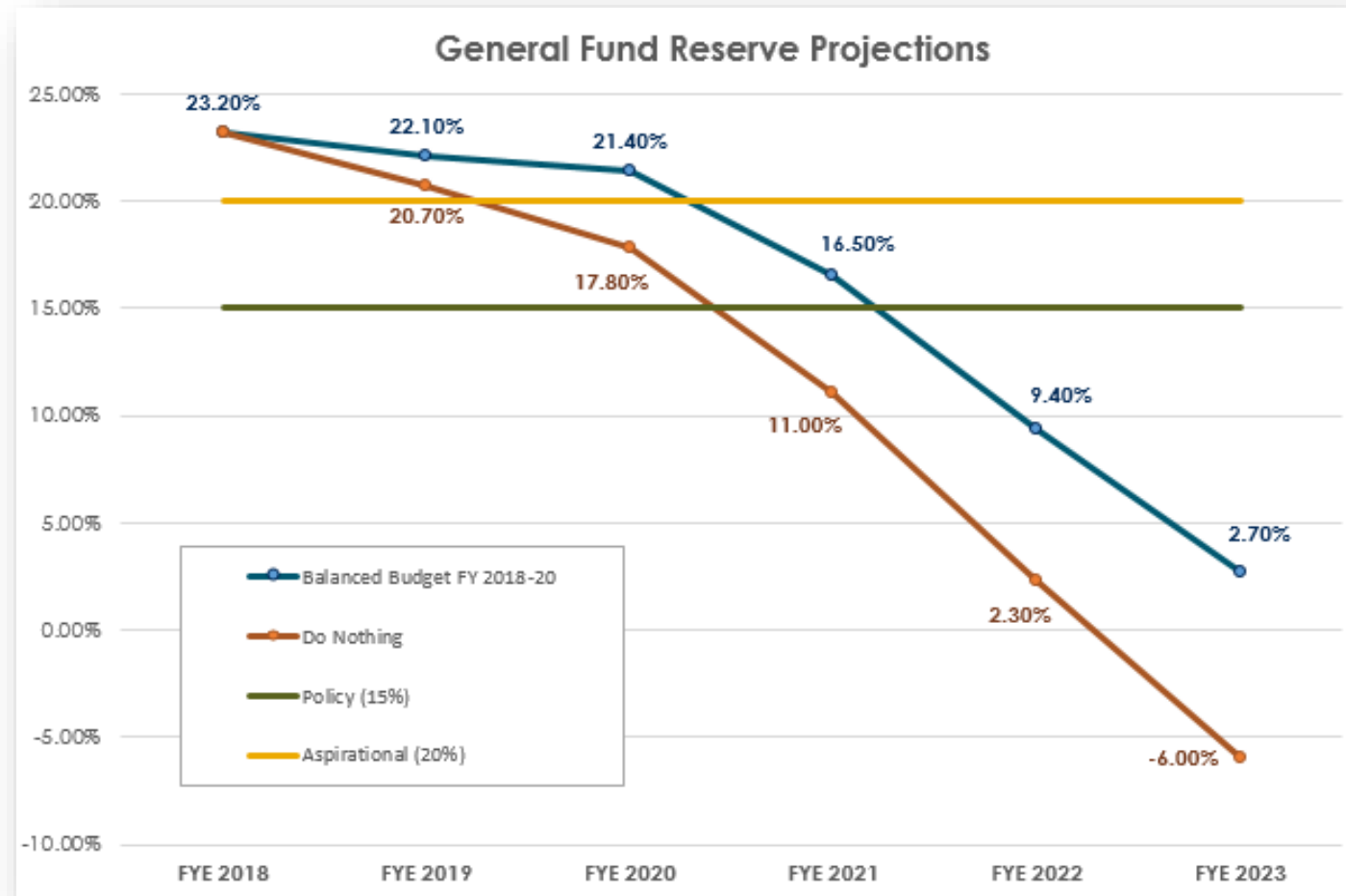
- The City's various funds, such as General Fund, electric, water and sewer, have available funding in them. The available funding, in line with accounting standards, could be restricted by applicable laws and regulations, or designated for specific purposes such as payment of debt, electric plant decommissioning, or infrastructure investments. The funding that has not been restricted or designated is available to pay bills and provide a cushion in the event of an emergency. **This unrestricted, undesignated funding is typically referred to as “reserves”.**

FY 2016-17 Major Fund Reserves
(as compared to **Minimum** and **Maximum** Reserve Policy Levels)



GENERAL FUND RESERVE

- September 6, 2016 adoption of General Fund Reserve Policy
 - 15% minimum reserve level
 - 20% goal
- If we do nothing
 - FY 2018-19 & 2019-20 will maintain reserve levels above the policy requirement of 15%
 - Reserves will be depleted in FY 2022-23



BALANCING MEASURES

- Focus on:
 - Revenue enhancements
 - Non-personnel measures (contracts, subsidies, other discretionary)
- Align budget priorities with City Council strategic priorities
 - Public Safety
 - Infrastructure
 - Customer Service
- Minimize service impacts

MEASURE Z BASELINE

- May 16, 2017 - City Council approval of Five-Year Spending Plan
 - Estimated Revenues of \$51.5 million
 - Estimated Expenditures of \$47.2 million
- Updated Plan incorporates Council Action taken since initial adoption
- Revenue projection remains unchanged
- Funding for existing spending items extended through FY 2022-23, pending input from the Budget Engagement Commission and Council direction throughout the budget preparation period.
 - Staffing levels remain unchanged
 - Personnel increases (Partnership Compensation Model, CalPERS) are included
- Projected reserves of \$14.3M FY 2018-19 and \$11.2M FY 2019-20



MEASURE Z BASELINE

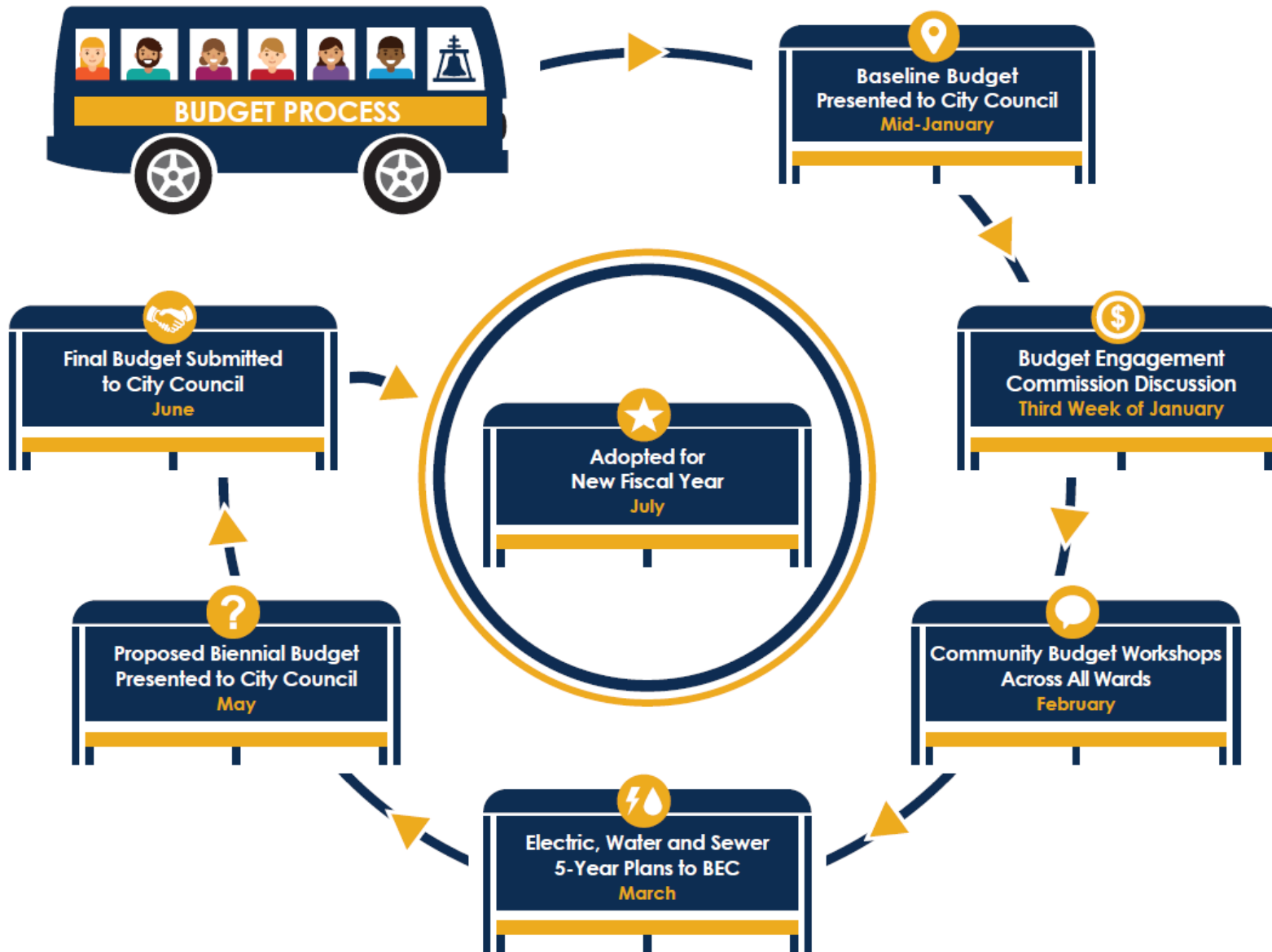
Measure Z Updated 5-Year Spending Plan - Baseline Budget

Spending Category	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	5-Year Projection
Financial Discipline/Responsibility	5,173,554	2,674,489	2,674,489	2,674,478	2,673,062	12,870,072
Public Safety	14,369,254	18,473,489	21,449,855	22,676,696	23,240,317	100,209,612
Critical Operating Needs	15,438,873	20,474,939	12,452,285	12,814,864	13,187,480	74,368,441
Facility Capital Needs	3,954,500	7,751,500	9,583,925	11,034,438	11,034,440	43,358,803
Quality of Life	4,284,500	4,304,975	4,326,474	4,349,047	4,372,750	21,637,746
Technology	2,000,000	2,000,000	2,000,000	1,000,000	1,000,000	8,000,000
Totals	45,220,681	55,679,392	52,487,028	54,549,523	55,508,049	263,444,673
Projected Revenue	52,072,570	52,593,296	53,119,229	53,650,421	54,186,925	265,622,441
Net Revenue/Expenditures	6,851,889	(3,086,096)	632,201	(899,102)	(1,321,124)	2,177,768
Projected Reserves ¹	14,334,296	11,248,200	11,880,401	10,981,299	9,660,175	9,660,175

¹ Includes June 20, 2018 Projected Reserves of \$7,482,407

- Financial Discipline
 - No Measure Z support requested for General Fund reserves
 - Staff recommends including a \$1 million Contingency annually through FY 22-23
- Public Safety
 - Debt service updated to actual
- Critical Operating Needs
 - Funding GAP per General Fund Five-Year Financial Plan
- Facility Capital Needs
 - Incorporated Council action related to New Main Library, Police Headquarters, and Museum Refurbishment projects
- Quality of Life – no change
- Technology
 - Extended through FY 2022-23





THANK YOU
for participating
in this
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Budget
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